



# House of Representatives

General Assembly

**File No. 365**

*January Session, 2009*

House Bill No. 5227

*House of Representatives, March 31, 2009*

The Committee on Higher Education and Employment Advancement reported through REP. WILLIS of the 64th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

## ***AN ACT ALLOWING TOWNS TO CREATE SCHOLARSHIP FUNDS THROUGH MUNICIPAL BONDING.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1      Section 1. (NEW) (*Effective July 1, 2009*) (a) A municipality, as  
2      defined in section 7-369 of the general statutes, may authorize the  
3      issuance of bonds, notes or other obligations in accordance with the  
4      provisions of chapter 109 of the general statutes for the purpose of  
5      funding a scholarship fund established pursuant to subsection (b) of  
6      this section to provide for tuition for residents of the municipality or  
7      children of such residents attending public institutions of higher  
8      education in this state and independent colleges or universities, as  
9      defined in section 10a-37 of the general statutes, provided scholarship  
10     money provided to a resident attending such an independent college  
11     or university shall not be in an amount that exceeds the annual rate of  
12     tuition charged to in-state students to attend The University of  
13     Connecticut for the year of the scholarship.

14 (b) Any municipality that provides for bonding to fund a  
15 scholarship fund for residents of the municipality or children of such  
16 residents to attend public institutions of higher education in this state  
17 and independent colleges or universities, as defined in section 10a-37  
18 of the general statutes, under this section shall create a fund for such  
19 purposes. Any proposal to create such fund, or to issue bonds for such  
20 fund, shall be subject to confirmation by referendum at the next  
21 regular election of such municipality. The provisions of section 7-374  
22 of the general statutes shall apply to any bonds issued pursuant to this  
23 section.

24 (c) There shall be paid into the fund created pursuant to subsection  
25 (b) of this section the proceeds of bonds, notes or other obligations  
26 issued pursuant to this section. The fund may also accept gifts,  
27 donations, bequests or funds from any other legal source.

28 (d) The budget-making authority of such municipality may, from  
29 time to time, direct the town treasurer to invest such portion of such  
30 fund as in its opinion is advisable, provided: (1) Not more than forty  
31 per cent of the total amount of the fund shall be invested in equity  
32 securities, and (2) any portion of such fund not so invested may be  
33 invested in: (A) Bonds or obligations of, or guaranteed by, the state or  
34 the United States, or agencies or instrumentalities of the United States,  
35 (B) certificates of deposit, commercial paper, savings accounts and  
36 bank acceptances, (C) the obligations of any state of the United States  
37 or any political subdivision thereof or the obligations of any  
38 instrumentality, authority or agency of any state or political  
39 subdivision thereof, provided at the time of investment such  
40 obligations are rated within the top rating categories of any nationally  
41 recognized rating service or of any rating service recognized by the  
42 Banking Commissioner and applicable to such obligations, (D) the  
43 obligations of any regional school district in this state, of any  
44 municipality in this state or any metropolitan district in this state,  
45 provided at the time of investment such obligations of such  
46 government entity are rated within one of the top two rating categories  
47 of any nationally recognized rating service or of any rating service

48 recognized by the Banking Commissioner and applicable to such  
 49 obligations, (E) in any fund in which a trustee may invest pursuant to  
 50 section 36a-353 of the general statutes, (F) in investment agreements  
 51 with financial institutions whose long-term obligations are rated  
 52 within the top two rating categories of any nationally recognized  
 53 rating service or of any rating service recognized by the Banking  
 54 Commissioner or whose short-term obligations are rated within the  
 55 top rating category of any nationally recognized rating service or of  
 56 any rating service recognized by the Banking Commissioner, or (G)  
 57 investment agreements fully secured by obligations of, or guaranteed  
 58 by, the United States or agencies or instrumentalities of the United  
 59 States.

60 (e) The town treasurer shall submit annually a complete and  
 61 detailed report of the condition of such fund to the chief executive  
 62 officer, the budget-making authority and the legislative body of such  
 63 municipality and such report shall be made a part of the annual report  
 64 of the municipality.

65 (f) Such fund may be discontinued, after recommendation by the  
 66 chief executive officer and the budget-making authority to the  
 67 legislative body and upon approval of such body, and to the extent  
 68 there is any remaining portion of such fund, the fund shall be  
 69 converted into, or added to, a sinking fund to provide for the  
 70 retirement of the bonded indebtedness of the municipality. If the  
 71 municipality has no bonded indebtedness, such fund shall be  
 72 transferred to the general fund of the municipality.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2009	New section

**HED**      *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

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### **OFA Fiscal Note**

**State Impact:** None

**Municipal Impact:**

Municipalities	Effect	FY 10 \$	FY 11 \$
Various Municipalities	Cost	See Below	See Below

### **Explanation**

The debt service costs incurred by municipalities that choose to issue bonds to fund scholarships for students attending state public institutions will depend on: 1) the amount financed, 2) the interest rate at which the bonds are issued and 3) the length of time for which the bonds are issued.

The extent of the costs to municipalities to hold a referendum depends on the population of the town, and whether the referendum is submitted to electors at a regular election or at a special election. The cost for a referendum at a regular election is minimal, relating to the printing of referendum ballots and associated referendum signage. The cost to conduct a referendum at a special election varies by town population. Small towns, such as Andover and Roxbury, can hold a referendum for between \$2,000 to \$5,000. Larger cities, such as Bridgeport and Stamford, could incur costs from \$75,000 to \$100,000, to hold a referendum at a special election.

### **The Out Years**

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

**OLR Bill Analysis****HB 5227*****AN ACT ALLOWING TOWNS TO CREATE SCHOLARSHIP FUNDS THROUGH MUNICIPAL BONDING.*****SUMMARY:**

This bill authorizes municipalities to issue bonds, notes, or other debt obligations, according to state law governing municipal bond issues, to fund scholarships for municipal residents or their children attending public or private colleges and universities in the state. The bill limits the scholarship amount for students attending private colleges and universities to UConn's annual in-state tuition rate for the scholarship year.

The bill requires any municipality that issues scholarship bonds to (1) propose creating a fund for such purpose and (2) hold a confirming referendum at its next regular election before establishing the fund or issuing any bonds for it. It subjects any scholarship bonds to the municipality's bond cap. Municipalities include towns, cities, boroughs, metropolitan districts, special taxing districts, and any other municipal corporations with taxing and bonding power.

The bill authorizes the fund to accept gifts, donations, bequests, and funds from any other legal sources. It specifies how the municipality may invest the money in, and discontinue, the fund. And it requires the municipality to annually report on the fund's condition.

EFFECTIVE DATE: July 1, 2009

**MUNICIPAL SCHOLARSHIP FUND*****Investment Options***

The municipality's budget-making authority may direct the municipal treasurer to invest a portion of the fund it considers

advisable within the parameters set by the bill. The treasurer may invest up to 40% of the fund in equity securities and the remaining amount in:

1. bonds or obligations (a) of the U. S. government or its agencies or instrumentalities, (b) of Connecticut, or (c) guaranteed by the state or U. S. government;
2. certificates of deposit, commercial paper, savings accounts, and bank acceptances;
3. obligations of any state or political subdivision, or its instrumentalities, authorities, or agencies, as long as, at time of the investment, it is rated in the top rating categories of any nationally recognized rating service or one service the banking commissioner recognizes;
4. obligations of any Connecticut municipality, regional school district, or metropolitan district, as long as, at the time of the investment, it is rated in one of the two highest rating categories by a nationally recognized rating service or one the banking commissioner recognizes;
5. any U. S. -registered investment company or investment trust (a) whose portfolio is limited to U. S. government obligations and repurchase agreements fully collateralized by such obligations and (b) is rated in one of the two highest rating categories by a nationally recognized rating service;
6. investment agreements with a financial institution whose (a) long-term obligations are rated in one of the two highest rating categories by a nationally recognized rating service or one the banking commissioner recognizes and (b) short-term obligations are rated in the top rating category by such a rating service; or
7. U. S. -secured or -guaranteed investment agreements.

**Reporting Requirement**

The municipal treasurer must annually submit a complete and detailed report on the fund's condition to the municipality's chief executive officer, budget-making authority, and legislative body. The municipality must include that report in its annual report.

**Discontinuing the Fund**

The bill allows the fund to be discontinued upon recommendation of the chief executive officer and budget-making authority with the approval of the municipality's legislative body. Once it is discontinued, the remaining money must be (1) converted or added to a sinking fund to retire the municipality's debt or (2) transferred to its general fund if the municipality has no debt.

**COMMITTEE ACTION**

Higher Education and Employment Advancement Committee

Joint Favorable

Yea 11 Nay 6 (03/17/2009)